

# Apple's success story in China

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A disturbance occurred in front of the Sanlitun Apple Store in Beijing at 7:00 a.m., January 13, 2012. More than a thousand people gathered outside the store to buy Apple's new gadget, iPhone 4S, only to end up scuffling with policemen. The Apple Store postponed the launch of iPhone 4S for safety reasons, causing an angry crowd to throw eggs at the store.

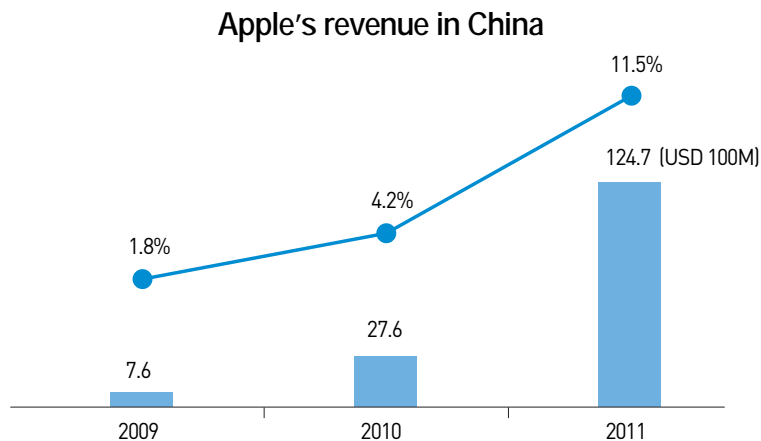
- **China was once a low priority market for Apple**

Apple was not loved by the Chinese at first. Since Apple opened its office in Beijing in 1993, its president has changed several times, and none have performed particularly well. In 2006, the post of president of the Beijing Office was abolished, and the vice president of the Asia Pacific headquarters, located in Singapore, took over duties in China. In Apple's global strategy, China was one of the least important markets. According to the global priority levels for iPhone 3, released in 2008, China was not

among the first priority markets, to which the USA and Europe belonged, nor the second priority markets, which included Argentina and Uruguay. China was categorized as a third priority market.

Apple became serious about the Chinese market after it reached a deal with China Unicom for the exclusive sale of iPhone 3 in China in 2009. Apple had negotiations with China Mobile which had a 69.7% market share, but after conflicts over profit sharing and the introduction of App Store, Apple finally selected China Unicom as its distributor. Before the deal, Apple established a sales network through indigenous Chinese electrical appliance shops, such as Gome and Dazhong Electronics. However, the Apple fervor that swept the world seemed to pass by China.

Apple's initial sales in China were lower than expected. For 40 days from its release, iPhone 3's accumulated sales in China totaled only 100,000 units. This is in stark contrast to Korea where 65,000 units were sold within three days. This lackluster performance in China was the outcome of iPhone's excessively high price, unreasonable profit sharing scheme, and the suicides of Foxconn workers. Apple's iPhone 3GS 32GB was sold for RMB



Source: Maeil Business Newspaper

6,999, more than twice the average price of smart phones in China. Upon release, a series of events unfavorable to Apple occurred. At the end of February of 2009, about 100 workers at one of Apple's Chinese suppliers were poisoned by hydrocarbon. In the middle of July, a series of suicide cases involving Foxconn made headlines.

China's major media, including The Economic Observer (經濟觀察報), criticized Apple's unreasonable profit sharing scheme, damaging Apple's image in China. According to a survey on iPhone's value chain in 2011, Chinese assembly plants received 1.8% of profits, while Apple's gross profit margin was 58.5%. Unfavorable public opinion ran counter to Apple's expectations for the Chinese market.

#### ● ● **Skyrocketing sales of iPhone 4**

The release of iPhone 4 has totally changed Apple's business in China. With the smart phone fervor sweeping China by word of mouth and through social networking services, over 200,000 pre-orders were placed for iPhone 4 within five days of its release on September 25, 2010. In the second through fourth quarters of 2011, more than 5.6 million units were sold. App Store for China was launched in October of 2010, and iPhone White and iPad 2 hit the market concurrently in April of 2011. An incident where angry customers broke the windows of the Beijing App Store shows the height of the Apple frenzy in China.

Apple is riding high in China, propelled by sales of its wildly popular iPhone 4S. In FY 2011 (October-September), Apple's revenue was USD 12.47 billion, 15 times higher than USD 760 million in 2009. This represented 11.5% of total revenue, far higher than 4.2% in 2010. China is now the only country with more than 10% of global market share, except the USA with 38.6%.

Apple's market share in China recently fell from 13.3% in the second quarter of 2011 to 7.5% in the fourth quarter, and its ranking dropped from

3rd to 5th. This is attributed to the fact that some consumers waited for the release of iPhone 4S, and there is a growing number of local companies with low cost smart phones, including Huawei (12.6%) and ZTE (11.1%).

However, Apple's growth in China seems to be strong given that China's smart phone market is growing explosively, with accumulated users surpassing 100 million in the time from the launch of 3G service in 2009 to the third quarter of 2011, and that Apple recently formulated a plan to diversify its public distributors in China.

## ○ ● **Wrangling between Apple and China**

On March 9, 2012, Apple started selling iPhone 4S through China Telecom, China's third largest mobile carrier. Apple is expected to conclude a distribution agreement with China Mobile, the country's immovable number one mobile carrier.

Apple CEO Tim Cook said that he would put a higher priority on the Chinese market in the future at the Goldman Sachs annual tech conference on February 15, 2012. Last year, Apple stated that it would increase the number of Apple Stores in China from six (including Hong Kong) to 20 by the end of 2012, and actively employ all marketing strategies that it has used in the USA, such as online support and product advertisements. In Korea, there is no official Apple Store, and Japan has only seven official Apple Stores.

In the meantime, the biggest obstacle to Apple's success in the Chinese market is not competitors such as Nokia and Samsung, but the Chinese government. How the Chinese government will respond to Apple, which is treating China as merely an assembly base and consumer market, and how Apple will defend itself, will be a good case study for many companies intending to enter the Chinese market. [C](#)